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Borrowers' breathing room

Raleigh attorney Jerry Hartzell, on the opposite page a few days ago, underlined the importance of an effort by U.S. Rep. Brad Miller of Raleigh to allow bankruptcy judges to do again what they could do for nearly 20 years, from 1976 to 1993, namely reduce home mortgage payments. It's important, and if the change isn't made, many thousands of borrowers could lose their homes.

The familiar but painful pattern that's become clear during the current crunch in the credit markets is that with so-called subprime loans, home-buyers were given a low payment going in. But then, when the payment escalated in a relatively short period of time, they found themselves unable to keep up. In too many cases and potential cases, foreclosure has been or will be the result.

Would the change proposed by Miller amount to letting people who overestimated their ability to make those payments walk away from their mistakes? Hardly.

For one thing, payments would still be required. They'd simply be reduced by a judge to a figure that was feasible. So the lenders wouldn't have to assume ownership of the homes and would still be recovering the money they'd loaned. Second, and Hartzell makes an excellent point here, the acute crisis now is the result of the mortgage industry having gotten what it wanted with less regulation, and loaning money based on a continued increase in housing prices.

The increase has slowed or stopped. Hence, a serious crisis. Hartzell says it's wrong to think that the market will just work itself out, or that focusing on avoiding the problem in the future would be doing enough. Likening the crisis to the Titanic, he said, ***"What we need urgently is lifeboats, more than new designs for how to build next year's ocean liner."***

It seems peculiar that the mortgage folks would oppose something that might prevent thousands and thousands of foreclosures, apparently in the name of not wanting more regulation. With the housing market in a slump, why would lenders want to foreclose and own a bunch of homes they probably couldn't sell, anyway? And having seen the subprime crisis, why wouldn't they want to safeguard against making it even worse? That doesn't make sense. Miller's effort does.